



DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
8725 JOHN J. KINGMAN ROAD, SUITE 2135
FORT BELVOIR, VA 22060-6219

IN REPLY REFER TO

PPD 730.5.3.1

September 24, 2003
03-PPD-067(R)

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA
DIRECTOR, FIELD DETACHMENT, DCAA

SUBJECT: Audit Guidance on Earned Value Management (EVM) Surveillance Audits

Summary

This MRD provides audit guidance on earned value management (EVM) surveillance audits, as adopted by the Executive Steering Committee (ESC) at the June 2003 meeting, and transmits revised audit programs, audit report shells, and tailored APPS risk assessment working papers (W/Ps B and B-2) for use in performing EVM surveillance audits. This memorandum expands on and clarifies existing CAM 11-200 guidance related to EVM surveillance audits, including discussing the auditor's surveillance responsibilities in terms of EVM system surveillance and EVM report surveillance. The audit guidance contained in this memorandum, as well as the enclosed audit programs, audit report shells, and tailored APPS risk assessment working papers are effective upon receipt of this memorandum. MRD 03-OWD-041(R), dated July 28, 2003 contained planning guidance for FY 2004 relative to EVM surveillance audits.

Background

DoDI 5000.2 requires the implementation of EVM guidelines on contracts or agreements for research, development, test and evaluation (RDT&E) with a value of \$73 million or more and procurement or operations and maintenance (O&M) contracts or agreements with a value of \$315 million or more (in fiscal year 2000 constant dollars).

EVM surveillance begins with the award of the contract, continues through initial compliance and acceptance, and extends throughout the period of contract performance. In accordance with DoD policies and procedures, EVMS surveillance of the contractor's system after acceptance, and review of data emanating from that system, is to be accomplished by qualified individuals from the Contract Management Office (CMO) and DCAA. The auditor's surveillance responsibilities, as identified in Part II, Section 3-2a(3) of the Earned Value Management Implementation Guide (EVMIG), include (1) reviewing the contractor's accounting system policies and procedures for compliance with EVMS guidelines and contract provisions (system surveillance) and (2) performing periodic reviews of selective financial data contained in various reports submitted by the contractor to determine whether they accurately reflect the contractor's books and records (report surveillance).

Audit Guidance

EVM surveillance audits should be performed at least once a year, but should be performed as frequently as necessary to ensure continued reliance on the system and related output. Based on a risk assessment, the scope of the surveillance audit may (1) include system and report surveillance (performed under activity code 17750) or (2) be limited to report surveillance (performed under activity code 17760). The objective of the system surveillance portion of the audit is to ensure that the contractor's management control system continues to: (1) provide valid and timely management information; (2) comply with the DoD EVMS guidelines; (3) provide timely indications of actual or potential problems; and (4) provide baseline integrity. The objective of the report surveillance portion of the audit is to ensure that the contractor's required external cost management reports (CPR, C/SSR, and CFSR) contain: (1) information that is derived from the same data as that used by contractor management; (2) explicit and comprehensive variance analysis, including proposed corrective action in regard to cost, schedule, technical, and other problem areas; and (3) information that depicts actual conditions.

An initial determination of the overall scope of the surveillance audit (i.e., system and report surveillance or report surveillance only) will be made based on a risk assessment performed as part of the annual program planning process. Report surveillance will be performed on at least an annual basis. The need for system surveillance will be based on the following criteria:

1. A detailed evaluation of the EVM system's continuing adequacy and compliance with EVMS guidelines should be performed every 2 to 4 years.
2. If a detailed evaluation of the EVM system's continuing adequacy and compliance with EVMS guidelines has been performed within the last 2 to 4 years, a limited system evaluation should be planned to cover the following specific risk factors, to the extent that they exist: (i) changes in the system since the last detailed evaluation was performed, (ii) related internal control deficiencies, and (iii) any specific ACO concerns.
3. If a detailed evaluation of the EVM system's continuing adequacy and compliance with EVMS guidelines has been performed within the last 2 to 4 years and none of the risk factors identified in 2. above exist, no system surveillance is required for the current FY. Only report surveillance would be required.

The auditor should select a sample of contracts to be tested as part of the annual EVM report surveillance. The sample of contracts should reflect (1) high-risk or sensitive contracts, including contracts where problems were identified in prior year testing, plus (2) a three-year cycling of all other contracts containing reporting requirements, with at least one contract tested per year. The auditor should determine the extent of testing of report data and select the specific reports to be tested under the selected contracts based on the results of the audit risk assessment. A universe of contracts with cost management reporting requirements (i.e., CPR, C/SSR, or CFSR) should be developed during the annual program planning process. Auditors may develop the universe of contracts based on (1) data obtained from the contractor, (2) data obtained from the ACO, (3) briefing contract provisions, specifically the Contract Data Requirements List (CDRL), DD Form 1423, or (4) a combination of these data sources. The

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universe of contracts should include contracts containing EVM requirements (DFARS 252.234-7001), as well as contracts which, while they do not contain the EVM requirement, include requirements for submission of the CPR, C/SSR, or CFSR. The auditor should coordinate with the ACO to identify any sensitive, high risk, or high visibility contracts.

EVM surveillance audits should be performed using the enclosed audit programs. The existing EVM surveillance audit program under activity code 17750 has been revised to clarify the audit steps to be performed when performing both system and report surveillance. A new audit program has been developed for performing only EVM report surveillance under activity code 17760. The audit program for activity code 17760 may also be used, modified as appropriate, to perform requested audits of individual contract cost reports submitted by EVM-covered contractors. We have also developed and attached proforma tailored risk assessment working papers (W/Ps B, B-2 and B-3) for both activity codes 17750 and 17760. Audit reports should be prepared using the attached audit report shells and the guidance contained in CAM 10-1200. The audit programs, audit report shells, and proforma tailored risk assessment working papers will be included in the October 2003 APPS release, but are effective with the receipt of this memorandum.

Closing Remarks

Field audit office personnel should refer questions regarding this memorandum to their regional offices. Regions unable to answer, or with questions of their own, should contact Ms. Victoria Post, Program Manager, Policy Programs Division, at (703) 767-2270 or email at DCAA-PPD@dcaa.mil.

/Signed/

Robert DiMucci
Assistant Director
Policy and Plans

Enclosures (10)

1. Activity Code 17750 Audit Program (17750_AP_EVMS_Surveillance.doc)
2. Activity Code 17750 Audit Report Shell (17750_AR_EVMS_Surveillance.doc)
3. Activity Code 17750 W/P B (17750 WP B.doc)
4. Activity Code 17750 W/P B-2 - Contractor with ICAPS (17750 WP B-2 Contractor with ICAPS.doc)
5. Activity Code 17750 W/P B-2 - Contractor with ICQ (17750 WP B-2 Contractor with ICQ.doc.doc)
6. Activity Code 17760 Audit Program (17760_AP_EVMS_Surveillance.doc)
7. Activity Code 17760 Audit Report Shell (17760_AR_EVMS_Surveillance.doc)
8. Activity Code 17760 W/P B (17760 WP B.doc)
9. Activity Code 17760 W/P B-2 – Contractor with ICAPS (17760 WP B-2 Contractor with ICAPS.doc)
10. Activity Code 17760 W/P B-2 – Contractor with ICQ (17760 WP B-2 Contractor with ICQ.doc.doc)

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| Activity Code 17750 | | EVMS, System and Report Surveillance |
| Version 2.0, dated September 2003 | | |
| B-1 | Planning Considerations | |
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| Purpose | | |
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| <p>This audit program is intended for use in performing the annual earned value management syatem (EVMS) surveillance audit in those years where both system and report surveillance is required. If system surveillance is not required, and the surveillance audit will be limited to report surveillance only, the audit should be set up and performed under activity code 17760, EVM Report Surveillance (Report Only).</p> | | |
| <p>This program is intended to provide a logical sequence to the audit effort, and to reflect a mutual understanding between the auditor and the supervisor as to the scope required to meet auditing standards and DCAA objectives for the current assignment. The audit steps in the program are intended as general guidance and should be modified as considered necessary to fit the current audit. Those steps not required should be marked "not applicable" (N/A), lined through, or deleted, as appropriate for your FAO. Portions of the audit which are covered in other assignments (e.g., audits of billing system, budgeting system, progress payments, MMAS, estimating system) should be referenced at the appropriate place in this program.</p> | | |
| <p>The primary objective of EVMS guidelines is to ensure that contractors use effective internal cost and schedule control systems that provide contractor and government managers with timely and auditable data to effectively monitor their programs, meet requirements, and control contract performance. In accordance with DoD policy, compliance with EVMS guidelines shall be required on significant contracts,subcontracts, or agreements within all acquisition programs, unless waived by DoD during the acquisition process. For this purpose, significant contracts/agreements are defined as research, development, test, and evaluation (RDT&E) contracts/agreements with a value of \$73 million or more and procurement or operations and maintenance (O&M) contracts/agreements with a value of \$315 million or more (in fiscal year 2000 constant dollars).</p> | | |
| <p>When required by the contract, the cost and schedule control system used by the contractor in planning and controlling the performance of the contract must meet the guidelines specified in the American National Standards Institute (ANSI)/Electronic Industries Alliance (EIA) EVMS standard (ANSI/EIA-748-1998) (reproduced in Section 2 of the Earned Value Management Implementation Guide (DCAAP7641.47)). Although Cost Performance Reports (CPRs) are usually required by contracts that are subject to full compliance with EVMS guidelines, DoD reporting requirements, such as the CPRs, Cost/Schedule Status Reports (C/SSRs), Contract Funds Status Reports (CFSRs), and Contractor Cost Data Reports (CCDRs), are specified separately in DD Form 1423, Contract Data Requirements List, contained in the contract.</p> | | |
| EVMS surveillance begins with the award of the contract, continues through initial | | |

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| <p>compliance and acceptance, and extends throughout the period of contract performance. In accordance with DoD policies and procedures, EVMS surveillance of the contractor's system after acceptance, and review of data emanating from that system, is to be accomplished by qualified individuals from the Contract Management Office (CMO) and DCAA. The objectives of EVMS surveillance are:</p> |
| <ul style="list-style-type: none">• To ensure that the contractor's management control system continues to: (1) provide valid and timely management information; (2) comply with the DoD EVMS guidelines; (3) provide timely indications of actual or potential problems; and (4) provide baseline integrity. |
| <ul style="list-style-type: none">• To ensure that the contractor's required external cost and schedule reports contain: (1) information that is derived from the same data base as that used by contractor management; (2) explicit and comprehensive variance analysis including proposed corrective action in regard to cost, schedule, technical, and other problem areas; and (3) information that depicts actual conditions. |
| <p>DCMA is the executive agent for implementation of EVM on DoD contracts. DCMA normally appoints a member of the CMO as the surveillance monitor. The CMO monitor is assigned the overall responsibility for coordinating and accomplishing the EVMS surveillance. The surveillance monitor is assisted by personnel from the functional divisions of the CMO and DCAA in performing the activity required by the surveillance plan. Therefore, close coordination between DCMA, CMO, and DCAA is required in the preparation of the surveillance plan to ensure effective EVMS surveillance and to avoid duplication of oversight. The purpose of this audit program is to facilitate DCAA's participation in this surveillance activity.</p> |
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| Scope |
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| <p>The scope of our surveillance audits will depend on the contractor's financial condition and how much reliance can be placed on the accounting system, internal controls, cost representations, and billing procedures. If the results of prior audits and the preliminary audit steps indicate low audit risk, audit scope should be reduced accordingly. This decision must reflect a mutual understanding between the auditor and supervisor as to the scope required to meet auditing standards and DCAA objectives for the current assignment. This program does not replace individual auditor judgment and may be supplemented to satisfy the needs of a particular assignment.</p> |
| <p>DCAA's surveillance responsibilities include (1) auditing the contractor's accounting system policies and procedures for compliance with EVMS guidelines and contract provisions (system surveillance); (2) performing periodic audits of selective financial data contained in various reports submitted by the contractor to determine whether they accurately reflect the contractor's books and records (report surveillance); and (3) performing periodic evaluations of related financial areas, including budgeting, direct and indirect costs, variance analysis, and forecasting.</p> |
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| References (Should be reviewed prior to starting the audit) | |
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| 1. | CAM 11-200 Audit of Contractor Compliance with Earned Value Management System (EVMS) Guidelines. |
| 2. | CAM 11-300 Audit of Contractor Compliance with DoD Program Management Systems Reporting Requirements. |
| 3. | DCAAP 7641.47 EVMS Implementation Guide. |
| 4. | DFARS 234.005-70 Earned Value Management System |
| 5. | DFARS 234.005-71 Solicitation Provision and Contract Clause. |
| 6. | DFARS 252.234-7000 Notice of Earned Value Management System. |
| 7. | DFARS 252.234-7001 Earned Value Management System. |

| B-1 | Preliminary Steps | WP Reference |
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| Version 2.0, dated September 2003 | | |
| 1. | Obtain and review the risk assessment performed during preparation of the program plan to identify: | |
| a. | the initial assessment of the level of system surveillance required; | |
| b. | any ACO concerns; | |
| c. | high risk or high visibility contracts to include in the sample of reports generated from the EVMS; | |
| d. | the universe of contracts containing reporting requirements; and | |
| e. | the initial assessment of the number of contracts to test based on a 3 year cycling of contracts. | |
| | Note: If the risk assessment performed during the preparation of the program plan determined that no system surveillance was required, the audit should be set up and performed under activity code 17760, EVM Report Surveillance (Report Only). | |
| 2. | Determine whether the contractor's EVMS has been accepted. | |
| 3. | Review the following documents/items: | |
| a. | The contractor's System Description Document. | |
| b. | The EVMS Evaluation Guide that was completed during the acceptance process. | |
| c. | The surveillance plan prepared by the surveillance monitor and any revisions made since the last review. | |

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| d. A list of all performance measurement reports and related reports submitted in response to the data requirements list (DD Form 1423) contained in covered contracts. | |
| e. Contractor policies and procedures for preparing CPRs, C/SSRs, and CFSRs. | |
| NOTE: If these documents/items are not available in the permanent file, they can be obtained from the CMO surveillance monitor. | |
| 4. Contact the DCMA designated surveillance monitor and discuss DCMA's surveillance plan: | |
| a. Identify those elements of the plan related to DCAA's area of responsibility. | |
| b. Determine the reports and areas of the contractor's system planned for review during the current surveillance period. | |
| c. Determine if the government contract administration and program office officials are aware of any cost or schedule problems that affect the contractor's estimate at completion (EAC). Determine and document what these officials have done to verify the accuracy of the EAC. If appropriate, obtain copies of any reports prepared (see CAM D-301). | |
| d. Discuss the planned scope of audit and determine if there are additional audit steps required to satisfy the customer's needs or concerns. | |
| 5. Document the need for technical assistance. Coordinate with the DCMA surveillance monitor and request any required technical assistance. | |
| 6. Review the permanent files and audit leads to obtain background information, identify potential EVMS deficiencies, and identify high risk contracts to help establish the scope of audit. | |
| 7. Understanding and Evaluating the Contractor's Internal Control Structure | |
| a. Review relevant Internal Control Audit Planning Summaries (ICAPS) (or ICQ for nonmajor contractor where ICAPS have not been completed) to obtain and document an understanding of the estimating system and any other applicable internal control systems the contractor may have (e.g., labor, MMAS). Identify any deficiencies that would impact the audit and document their potential impact on the contractor's EVM system. | |
| b. If the contractor is classified as non-major (where ICAPS have not been completed), and if the evidential matter to be obtained during the audit is highly dependent on computerized information | |

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| systems, document on working paper B-2 the audit work performed that supports reliance on the computer-based evidential matter. Specifically, document or reference one or more of the following in working paper B-2: | |
| (1) the audit assignment(s) where the reliability of the data was sufficiently established in other DCAA audits, | |
| (2) the procedures/tests that will be performed in this audit to evaluate the incurred costs that will also support reliance on the evidential matter, and/or | |
| (3) the tests that will be performed in this audit that will be specifically designed to test the reliability of the computer-based data. | |
| When sufficient work is not performed to determine reliability (i.e., reduce audit risk to an acceptable level), qualify the audit report in accordance with CAM 10-210.4 and 10-1204.4. | |
| 8. Determine the extent EVMS guidelines flow down to subcontractors. | |
| a. Determine the extent of prime contractor surveillance. | |
| b. Determine whether the contractor has tasked its subcontractors to correct deficiencies noted in its surveillance reviews. | |
| c. In those cases where insufficient prime contractor surveillance is indicated, request an assist audit. | |
| 9. Select the sample of contracts to test for the report surveillance portion of the audit. The sample of contracts should reflect: | |
| a. A three-year cycling of contracts containing reporting requirements, with at least one contract tested per year, | |
| b. Plus high-risk or sensitive contracts, including contracts where problems were identified in prior year testing. | |
| 10. Arrange and conduct an entrance conference with the contractor's personnel responsible for the EVMS and preparing the selected reports. | |
| 11. In planning and performing the examination, review the fraud risk indicators specific to the audit. The principal sources for the applicable fraud risk indicators are: <ul style="list-style-type: none"> • Handbook on Fraud Indicators for Contract Auditors, Section II (IGDH 7600.3, APO March 31, 1993) located at www.dodig.osd.mil/PUBS/index.html, and • CAM Figure 4-7-3. Document in working paper B any identified fraud risk indicators and your response/actions to the identified risks (either individually or in | |

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| combination). This should be done at the planning stage of the audit, as well as during the audit if risk indicators are disclosed. If no risk indicators are identified, document this in working paper B. | |
| 12. Summarize the results of the risk assessment and preliminary audit steps and clearly identify the planned scope of audit. | |

| C-1 | System Surveillance | WP Reference |
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| Version 2.0, dated September 2003 | | |
| <u>To ensure the contractor's EVMS is continuing to operate as previously accepted, and is continuing to comply with the EVM guidelines, perform the following steps for those EVM guidelines assigned to DCAA and included in the scope of audit as documented in Section 6 of WP B.</u> | | |
| 1. | <u>Accounting Guideline 16.</u> Record direct costs in a manner consistent with budgets in a formal system controlled by the general books of account. | |
| a. | Review the most recently completed audit of Control Environment and Overall Accounting Internal Controls to determine the extent that the testing done in that audit can be used in determining the contractor's compliance with this EVM guideline. | |
| b. | If the contractor's system has changed with respect to this guideline since the last system surveillance audit, evaluate the policies and procedures for continued compliance using the attributes described below: | |
| | (1) The contractor's accounting system provides a basis for auditing all direct costs charged to contracts (i.e., the direct costs charged to contracts can be traced back to source documents). | |
| | (2) The accounting system accumulates and allocates direct costs to control accounts on the same basis as budgets. | |
| c. | For all system surveillance audits, select a sample of contracts (from the contracts selected for report surveillance) to test the above attributes for implementation on contracts. | |
| 2. | <u>Accounting Guideline 17.</u> When a work breakdown structure (WBS) is used, summarize direct costs from control accounts into the work breakdown structure without allocation of a single control account to two or more work breakdown structure elements. | |
| a. | Review the most recently completed audit of Control Environment and Overall Accounting Internal Controls to determine the extent that the testing done in that audit can be used in determining the contractor's compliance with this EVM guideline. | |

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| b. If the contractor's system has changed with respect to this guideline since the last system surveillance audit, evaluate the policies and procedures for continued compliance using the attributes described below: | |
| (1) Actual costs are accumulated by WBS to allow for the direct comparison with associated budgeted costs by WBS. | |
| (2) No single control account is allocated to two or more WBS elements. | |
| c. For all system surveillance audits, select a sample of contracts (from the contracts selected for report surveillance) to test the above attributes for implementation on contracts. | |
| 3. <u>Accounting Guideline 18</u> . Summarize direct costs from the control accounts into the contractor's organizational elements without allocation of a single control account to two or more organizational elements. | |
| a. Review the most recently completed audit of Control Environment and Overall Accounting Internal Controls to determine the extent that the testing done in that audit can be used in determining the contractor's compliance with this EVM guideline. | |
| b. If the contractor's system has changed with respect to this guideline since the last system surveillance audit, evaluate the policies and procedures for continued compliance using the attributes described below: | |
| (1) Direct costs are accumulated to allow a direct comparison with associated budgets at the appropriate organizational level. | |
| (2) No single control account is allocated to two or more higher level organizational elements. | |
| c. For all system surveillance audits, select a sample of contracts (from the contracts selected for report surveillance) to test the above attributes for implementation on contracts. | |
| 4. <u>Accounting Guideline 19</u> . Record all indirect costs which will be allocated to the contract. | |
| a. Review the most recently completed audit of Indirect and Other Direct Cost System Internal Controls to determine the extent that the testing done in that audit can be used in determining the contractor's compliance with this EVM guideline. | |
| b. If the contractor's system has changed with respect to this guideline since the last system surveillance audit, evaluate the policies and procedures for continued compliance using the attributes described below: | |

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| (1) Indirect costs are accumulated in accordance with the contractor's Disclosure Statement or written accounting policies and procedures for appropriate allocation through the contract WBS and organizational structure to the contract level. | |
| (2) Indirect rates are updated in a timely manner to ensure realistic monthly allocations of indirect costs without significant adjustments to performance measurement information. | |
| c. For all system surveillance audits, select a sample of contracts (from the contracts selected for report surveillance) to test the above attributes for implementation on contracts. | |
| 5. <u>Accounting Guideline 20</u> . Identify unit costs, equivalent unit costs, or lot costs when needed. | |
| a. Review the most recently completed audit of Control Environment and Overall Accounting Internal Controls to determine the extent that the testing done in that audit can be used in determining the contractor's compliance with this EVM guideline. | |
| b. If the contractor's system has changed with respect to this guideline since the last system surveillance audit, evaluate the policies and procedures for continued compliance using the attributes described below: | |
| (1) The accounting system can accumulate cost by lot, by unit or equivalent unit, as required. | |
| (2) The accounting system can separate contract costs into recurring and non-recurring categories when required by contract. | |
| c. For all system surveillance audits, select a sample of contracts (from the contracts selected for report surveillance) to test the above attributes for implementation on contracts. | |
| 6. <u>Accounting Guideline 21</u> . For EVMS, the material accounting system will provide for (1) accurate cost accumulation and assignment of costs to control accounts in a manner consistent with budgets using recognized, acceptable, costing techniques, (2) cost performance measurement at the point in time most suitable for the category of material involved, but no earlier than the time of progress payments or actual receipt of material and (3) full accountability of all material purchased for the program including the residual inventory. | |
| a. Review the most recently completed audit of Material Management and Accounting System Internal Controls to determine the extent that the testing done in that audit can be used in determining the contractor's compliance with this EVM guideline. | |
| b. If the contractor's system has changed with respect to this guideline since the last system surveillance audit, evaluate the | |

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| <p>policies and procedures for continued compliance using the attributes described below:</p> | |
| <p>(1) Material costs are being reported within the same accounting period as the associated earned value.</p> | |
| <p>(2) Cost performance for material occurs at the time most suitable for the type of material involved, but no earlier than point of receipt.</p> | |
| <p>(3) All material for the contract is fully accounted for (including residual material).</p> | |
| <p>c. For all system surveillance audits, select a sample of contracts (from the contracts selected for report surveillance) to test the above attributes for implementation on contracts.</p> | |
| <p>7. <u>Organization Guideline 4</u>. Identify the company organization or function responsible for controlling overhead (indirect costs).</p> | |
| <p>a. Review the most recently completed audit of Contractor Budget and Planning System Internal Controls to determine the extent that the testing done in that audit can be used in determining the contractor's compliance with this EVM guideline.</p> | |
| <p>b. If the contractor's system has changed with respect to this guideline since the last system surveillance audit, evaluate the policies and procedures for continued compliance using the attributes described below:</p> | |
| <p>(1) The managerial positions responsible for establishing and controlling indirect budgets are clearly identified in the contractor's organizational structure.</p> | |
| <p>(2) The responsibilities of the above managerial positions are in writing and clearly described.</p> | |
| <p>c. For all system surveillance audits, select a sample of contracts (from the contracts selected for report surveillance) to test the above attributes for implementation on contracts.</p> | |
| <p>8. <u>Planning, Scheduling, and Budgeting Guideline 8</u>. Establish and maintain a time-phased budget baseline, at the control account level, against which program performance can be measured. Budget for far-term efforts may be held in higher level accounts until an appropriate time for allocation at the control account level. Initial budgets established for performance measurement will be based on either internal management goals or the external customer negotiated target cost including estimates for authorized but undefinitized work. On government contracts, if an over target baseline is used for performance measurement reporting purposes, prior notification must be provided to the customer.</p> | |

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| a. Review the most recently completed audit of Contractor Budget and Planning System Internal Controls to determine the extent that the testing done in that audit can be used in determining the contractor's compliance with this EVM guideline. | |
| b. If the contractor's system has changed with respect to this guideline since the last system surveillance audit, evaluate the policies and procedures for continued compliance using the attributes described below: | |
| (1) The Performance Measurement Baseline (PMB) contains budgets for all costs at the level appropriate for project and/or company management. | |
| (2) Average indirect rates for the life of contract are not used (annual indirect rates should be used) to compute indirect costs included in the Performance Management Baseline. Average indirect rates may distort cost performance. | |
| c. For all system surveillance audits, select a sample of contracts (from the contracts selected for report surveillance) to test the above attributes for implementation on contracts. | |
| 9. <u>Planning, Scheduling, and Budgeting Guideline 9.</u> Establish budgets for authorized work with identification of significant cost elements (labor, material, etc.) as needed for internal management and for control of subcontractors. | |
| a. Review the most recently completed audits of Material Management and Accounting System Internal Controls and Contractor Budget and Planning System Internal Controls to determine the extent that the testing done in that audit can be used in determining the contractor's compliance with this EVM guideline. | |
| b. If the contractor's system has changed with respect to this guideline since the last system surveillance audit, evaluate the policies and procedures for continued compliance using the attributes described below: | |
| (1) Budgets for material requirements are based on contractor material requirement documents. | |
| (2) Budgets for material expenses are time-phased in support of schedule requirements. | |
| (3) Labor costs are based on accepted forward pricing/budgeted rates and hours. | |
| (4) Indirect rates are based on accepted forward pricing/budgeted rates. | |
| (5) ODCs are based on ODC requirements contained in the | |

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| contract. | |
| c. For all system surveillance audits, select a sample of contracts (from the contracts selected for report surveillance) to test the above attributes for implementation on contracts. | |
| 10. <u>Planning, Scheduling, and Budgeting Guideline 13.</u> Establish overhead budgets for each significant organizational component of the company for expenses which will become indirect costs. Reflect in the program budgets, at the appropriate level, the amounts in overhead pools that are planned to be allocated to the program as indirect costs. | |
| a. Review the most recently completed audits of Control Environment and Overall Accounting Internal Controls and Contractor Budget and Planning System Internal Controls to determine the extent that the testing done in that audit can be used in determining the contractor's compliance with this EVM guideline. | |
| b. If the contractor's system has changed with respect to this guideline since the last system surveillance audit, evaluate the policies and procedures for continued compliance using the attributes described below: | |
| (1) The contractor's Disclosure Statement and/or other written accounting policies and procedures includes a definition of indirect expenses, overhead pools, each item included in the composition of the overhead pools, and the basis for allocation of overhead costs to a contract over the life of the contract. | |
| (2) Projected overhead costs are adjusted in a timely manner to reflect changes in current or projected base costs, overhead costs and overhead structure. | |
| c. For all system surveillance audits, select a sample of contracts (from the contracts selected for report surveillance) to test the above attributes for implementation on contracts. | |
| 11. <u>Analysis and Management Reports Guideline 22.</u> At least on a monthly basis, generate the following information at the control account level and other levels as necessary for management control using cost data from, or reconcilable with, the accounting systems: (1) Comparison of the amount of planned budget and the amount of budget earned for work accomplished. This comparison provides the schedule variance. (2) Comparison of the amount of the budget earned with the actual (applied where appropriate) direct costs for the same work. This comparison provides the cost variance. | |
| a. Review the most recently completed audits of Control Environment and Overall Accounting Internal Controls and Contractor Budget and Planning System Internal Controls to determine the extent that the testing done in that audit can be used | |

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| in determining the contractor's compliance with this EVM guideline. | |
| b. If the contractor's system has changed with respect to this guideline since the last system surveillance audit, evaluate the policies and procedures for continued compliance using the attributes described below: | |
| (1) Labor, overhead and other rates used to calculate earned value are on the same basis as used to calculate associated budgets. | |
| (2) Actual cost data from the accounting system is used when determining cost variances. | |
| c. For all system surveillance audits, select a sample of contracts (from the contracts selected for report surveillance) to test the above attributes for implementation on contracts. | |
| 12. <u>Analysis and Management Reports Guideline 24.</u> Identify budgeted and applied (or actual) indirect costs at the level and frequency needed by management for effective control, along with reasons for any significant variances. | |
| a. Review the most recently completed audit of Contractor Budget and Planning System Internal Controls to determine the extent that the testing done in that audit can be used in determining the contractor's compliance with this EVM guideline. | |
| b. If the contractor's system has changed with respect to this guideline since the last system surveillance audit, evaluate the policies and procedures for continued compliance using the attributes described below: | |
| (1) Management has procedures to evaluate variances between budgeted and actual indirect costs and will initiate actions to identify and correct causes of variances. | |
| (2) Indirect variances will be recorded by element of expense, i.e., indirect labor, fringe benefits, etc., and that the system requires that the cause of significant variances be identified and reported. | |
| c. For all system surveillance audits, select a sample of contracts (from the contracts selected for report surveillance) to test the above attributes for implementation on contracts. | |
| 13. <u>Analysis and Management Reports Guideline 27.</u> Develop revised estimates of cost at completion based on performance to date, commitment values for material, and estimates of future conditions. Compare this information with the performance measurement baseline to identify variances at completion important to company management and any applicable customer reporting requirements, including statements of funding requirements. | |

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| a. Review the most recently completed audit of Contractor Budget and Planning System Internal Controls to determine the extent that the testing done in that audit can be used in determining the contractor's compliance with this EVM guideline. | |
| b. If the contractor's system has changed with respect to this guideline since the last system surveillance audit, evaluate the policies and procedures for continued compliance using the attributes described below: | |
| (1) The most accurate rates are used to compute the estimates at completion (EAC) – historical rates, projected rates where applicable, etc. | |
| (2) The contractor compares budgeted indirect costs to estimates of final indirect costs and analyzes any significant differences with appropriate corrective actions. | |
| c. For all system surveillance audits, select a sample of contracts (from the contracts selected for report surveillance) to test the above attributes for implementation on contracts. | |
| 14. <u>Revisions and Data Maintenance Guideline 30.</u> Control retroactive changes to records pertaining to work performed that would change previously reported amounts for actual costs, earned value, or budgets. Adjustments should be made only for corrections of errors, routine accounting adjustments, effects of customer or management directed changes, or to improve the baseline integrity and accuracy of performance measurement data. | |
| a. Review the most recently completed audit of Control Environment and Overall Accounting Internal Controls to determine the extent that the testing done in that audit can be used in determining the contractor's compliance with this EVM guideline. | |
| b. If the contractor's system has changed with respect to this guideline since the last system surveillance audit, evaluate the policies and procedures for continued compliance using the attributes described below: | |
| (1) Adjustments to accounting data are made only for routine accounting adjustments (e.g., end of period accruals) or corrections of errors. Accounting changes should be controlled to prevent inappropriate changes to performance measurement information. | |
| (2) Accounting adjustments, when appropriate, are made in a timely manner. | |
| c. For all system surveillance audits, select a sample of contracts (from the contracts selected for report surveillance) to test the above attributes for implementation on contracts. | |

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| d. Review the contracts selected under c., above for cost transfers between work breakdown structures (WBSs) on the contract and for transfers to other contracts. | |
| (1) Verify that transfers are properly approved and documentation is on file explaining the reasons for the transfers. | |
| (2) Determine if there appears to be a pattern to the transfers which indicates a recurring problem in booking of cost or a schedule problem. | |

| D-1 | Report Surveillance - Evaluation of Reports | WP Reference |
|---|--|---------------------|
| Version 2.0, dated September 2003 | | |
| 1. Review the selected reports and verify the mathematical accuracy. | | |
| 2. Review the selected reports for compliance with contractual requirements, such as reporting due dates, format, and content. | | |
| 3. Obtain and review the contractor's reconciliation of the reports to the contractor's cost ledgers. Selectively trace the reported actual cost data to the contractor's job cost ledgers. | | |

| E-1 | Report Surveillance - Evaluation of Reconciliations | WP Reference |
|---|--|---------------------|
| Version 2.0, dated September 2003 | | |
| 1. Reconcile the CPR or C/SSR to the CFSR using the guidance in "EVMS - DCAA Reconciliation of EVMS Reports" (Other Audit Guidance)." | | |
| 2. Reconcile the CPR or C/SSR to reports prepared by the contractor for other purposes, such as contractor cost data reports (CCDR), quarterly limitation on payment statements (QLOP), progress payment requests, and public vouchers. | | |
| 3. Request the contractor to explain any differences between the CPR or C/SSR, the CFSR, the cost ledgers, and the other reports. Differences that cannot be explained are indicators of significant internal control deficiencies in the cost accounting system and/or the performance measurement system. | | |
| 4. Immediately advise the contractor and the surveillance monitor of any system deficiencies and report the condition using the guidance in CAM 5-105d. | | |

| F-1 | Report Surveillance - Evaluation of Estimated Cost at | WP Reference |
|------------|--|---------------------|
|------------|--|---------------------|

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| | Completion (EAC) | |
| Version 2.0, dated September 2003 | | |
| 1. | Determine whether the EAC used by the contractor was a "bottoms-up" EAC or was formula driven. Refer to the contractor's system description document to determine the required frequency of "bottoms-up" EACs. | |
| 2. | Confirm that data utilized in the EAC was prepared and approved by the responsible individual as defined in the system description document. Normally, someone such as the Cost Account Manager prepares the data. | |
| 3. | Verify that reasons for revisions to the EAC are fully documented and based on verifiable data. | |
| 4. | Determine if the EAC appears reasonable when compared to projections using trend analysis techniques. Note: DCMA frequently evaluates reported EACs using similar trend analysis techniques. Do not duplicate analyses available from the CMO or Program Office. | |
| a. | Graphically plot the cumulative to date Budgeted Cost of Work Scheduled (BCWS), Budgeted Cost of Work Performed (BCWP), and Actual Cost of Work Performed (ACWP), on a monthly basis. Compare to identify unusual fluctuations (positive and negative) and trace to the cost account level to identify the underlying reasons (See "EVMS-Trend Analysis of EAC Using Performance Indexes" (Other Audit Guidance)). | |
| b. | Project the EAC using Cost Performance Indices (CPI)s and Schedule Performance Indices (SPI)s as explained in "EVMS-Trend Analysis of EAC Using Performance Indexes" (Other Audit Guidance). | |
| c. | Significant differences between the EACs projected using the CPI and SPI and the contractor's "bottoms-up" ETC/EAC may indicate serious problems in the contractor's estimates and/or system and must be thoroughly investigated. | |
| d. | Discuss these differences with the contractor, the surveillance monitor, and the program office, and request an explanation for the difference. | |
| e. | If the difference is not explained to the satisfaction of the auditor, request a technical evaluation on the items in question. | |
| 5. | Evaluate the reasonableness of the contractor's "bottoms-up" ETC/EAC using the guidance in CAM 9-300. | |
| a. | Verify that the contractor has been consistent in its ETC/EAC | |

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| preparation. | |
| b. Verify that the contractor has used appropriate rates and factors. | |
| c. Review the quantitative and qualitative aspects of the EAC for reasonableness utilizing government technical assistance if considered necessary. | |

| G-1 | Report Surveillance - Variance Analysis | WP Reference |
|--|--|---------------------|
| Version 2.0, dated September 2003 | | |
| To ensure timely and responsible actions are taken by the contractor to identify causes and minimize the impact on contract performance: | | |
| 1. | Review schedule and cost variances disclosed in the CPRs or C/SSRs and contractor comments on significant problem areas, reasons for those variances, their impact on the program, and corrective action taken or to be taken. | |
| 2. | If appropriate, coordinate with the surveillance monitor, government program manager, technical specialists, etc., to assess impact of schedule slippage and problems in technical performance. | |
| 3. | On a sampling basis, select areas of significant cost variances and trace to the required action level. | |
| 4. | Determine if narrative descriptions provided by the contractor are valid and adequate. Discuss causes and proposed remedies with the contractor to assess responsiveness of proposed actions. | |
| 5. | Determine if the impact of any existing variances are reflected in the estimate to complete the contract. | |

| A-1 | Concluding Steps | WP Reference |
|--|-------------------------|---------------------|
| Version 2.0, dated September 2003 | | |

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| 1. Discuss the audit findings with the supervisor and hold an exit conference (follow the guidance in CAM 4-304.4). | |
| 2. Discuss the findings with the ACO and the surveillance monitor to ensure all pertinent information has been considered. | |
| 3. Complete indexing and reference working papers. | |
| 4. Draft Report (CAM 11-209.2 and 10-1200). | |
| a. The report should fully describe any significant unresolved deficiencies together with recommendations for their correction. | |
| b. When an assist audit and/or a technical evaluation is necessary, and is not obtained, the Qualification paragraph should be used to qualify the results of audit for the non-receipt of such reports (CAM 10-1204.4). | |
| 5. If the auditor has encountered information that constitutes evidence or raises suspicion that fraud or other illegal acts have occurred, refer such suspicion by completing a DCAA Form 2000 (see CAM 4-702.4 and 5). | |
| 6. Supervisory Review. | |
| 7. Complete administrative working papers and update permanent files (ICAPS, MAARs, CAS, etc.). | |
| 8. Closing actions should be performed in accordance with FAO procedures. These procedures may require either auditors or administrative personnel to perform various closing steps. Completion of these closing actions should be documented (e.g., by initials and date on the CD or working paper folder, etc.) and should include: | |
| a. Once an audit report is signed, the electronic document should immediately be modified to indicate who signed it, and it should be password protected. The electronic file should then be renamed according to the convention “01 DCAA Report [RORG_ASSIGNMENT NO.] – Final.doc” and changed to a read-only file. Only this file should be stored, transmitted, or otherwise used for official purposes. | |
| b. Once the report is signed, the signature page of the audit report must be scanned in accordance with Agency standard scanning instructions. For audit packages, the scanned signature page file should be named the same as the audit report (see above) with “-sig” added (i.e., 01 DCAA Report 01101-2002X10100389-Final-sig.tif). There is no requirement to make the file a part of the APPS generated executable file and it may be included separately on the CD containing the APPS generated executable file | |
| c. Ensure an electronic copy of the final draft audit report containing the supervisory auditor’s initials and date on the top page, cross- | |

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| referenced to the working papers, is included in the working paper package. The final draft report should include all substantive changes made to the original draft, with cross-referencing updated as necessary. It should differ from the final report only due to minor administrative changes (spelling, format, etc.) made during final processing. | |
| d. Include an electronic version of the acknowledgement letter in the audit working paper package. | |
| e. Ensure all working paper files are "read only" and, if necessary, compressed for final storage. Generally, current Agency software should be used to automatically modify all electronic files for storage. | |
| f. Two complete sets of electronic working papers must be prepared. The "original" set should be stored in the working paper package. The "archive" set is to be stored separately from the working paper package on a single session CD-ROM. If there will be a short-term need to access the working papers, a third, or "working" set should be stored so as to be available for reference, generally on the LAN. This set should be deleted when no longer needed. | |
| g. Verify that electronic files stored on removable media are not corrupted and can be unarchived. | |
| h. Securely enclose the "original" set of electronic files in the working paper package. | |

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|-----------------|--|----------------|
| Version No. 2.0 | EVM System and Report Surveillance Audit Report (17750) | September 2003 |
|-----------------|--|----------------|

| | | |
|---|--------------------------------------|---|
|  | DEFENSE CONTRACT AUDIT AGENCY |  |
| | AUDIT REPORT NO. – | |
| | | |

[date]

PREPARED FOR:

ATTN:

,

PREPARED BY: DCAA

,

Telephone No.
FAX No.
E-mail Address

SUBJECT: Report on Audit of Earned Value Management System and Report
Surveillance

REFERENCES: *If applicable, include appropriate references.
Relevant Dates: (See Page 7)*

CONTRACTOR:

,

REPORT RELEASE RESTRICTIONS: See Page 8

CONTENTS: Subject of Audit

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Executive Summary

Scope of Audit

Results of Audit

Contractor Organization and Systems

DCAA Personnel and Report Authorization

Audit Report Distribution and Restrictions

Appendixes

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SUBJECT OF AUDIT

As part of our continuing surveillance of 's (), we examined compliance with selected Earned Value Management System (EVMS) guidelines established in DoDI 5000.2 and incorporated in DFARS 252.234-7001. By submitting invoices under contracts subject to EVMS guidelines, the contractor asserts that it has complied with these requirements. The purpose of the examination was to test whether the contractor's management control system continues to provide valid and timely management information and continues to comply with the DoD EVMS guidelines; and to test the accuracy and reliability of the financial data contained in the contract cost reports prepared from the contractor's system.

Compliance with DFARS 252.234-7001 is the responsibility of the contractor. Our responsibility is to express an opinion on the contractor's compliance with the requirements of DFARS 252.234-7001 based on our examination.

EXECUTIVE SUMMARY

[This section gives a brief overview of the audit findings. It briefly describes the audit opinion, recommendations, and the significant issues supporting the opinion. Refer to 10-1204.2, 10-210.2 and 10-304.2 for examples.]

SCOPE OF AUDIT

Except for the qualifications discussed below, *[omit if the report is not rendering a qualified opinion and there is no "Qualifications" section within the "Scope" paragraph]*, we conducted our examination in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the data and records are free of material misstatement. An examination includes:

- evaluating the contractor's internal controls, assessing control risk, and determining the extent of audit testing needed based on the control risk assessment;
- examining, on a test basis, evidence supporting financial and accounting data related to the earned value management system;
- assessing the earned value management system practices and compliance of those practices with applicable requirements;
- evaluating the overall data and records presentation; and
- determining the need for technical specialist assistance *[and quantifying the results of a government technical evaluation]*.

We evaluated financial and accounting data related to the EVM system using the applicable requirements contained in:

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- Federal Acquisition Regulation (FAR), and
- Defense FAR Supplement (DFARS),
- DoDI 5000.2, and
- *Industry or Technical Guides. [Identify any applicable guides actually used]*

Our examination specifically tested the contractor's compliance with the following EVMS guidelines *[list only those that apply]*:

- *Accounting Guideline 16*
- *Accounting Guideline 17*
- *Accounting Guideline 18*
- *Accounting Guideline 19*
- *Accounting Guideline 20*
- *Accounting Guideline 21*
- *Organization Guideline 4*
- *Planning, Scheduling and Budgeting Guideline 8*
- *Planning, Scheduling and Budgeting Guideline 9*
- *Planning, Scheduling and Budgeting Guideline 13*
- *Analysis and Management Reports Guideline 22*
- *Analysis and Management Reports Guideline 24*
- *Analysis and Management Reports Guideline 27*
- *Revisions and Data Maintenance Guideline 30*

During our examination, we tested the financial data contained in the following contract cost reports generated by the contractor's system:

- [Contract No.], [type of cost report] dated [date];
- [Contract No.], [type of cost report] dated [date];
- [Contract No.], [type of cost report] dated [date], and
- [Contract No.], [type of cost report] dated [date]

[Summarize the contractor's internal control systems for the audit area being reviewed using the guidelines provided in CAM 10-210-3f]

We believe that our examination provides a reasonable basis for our opinion. The scope of our examination reflects our assessment of control risk and includes audit tests designed to provide a reasonable basis for our opinion.

QUALIFICATIONS:

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[Any factors that restrict or limit the scope of the audit should be clearly described. Identify any circumstances encountered which have a significant adverse effect on the audit or results. (See 10-1204.4 and 10-210.4).]

Our examination does not provide a legal determination on 's compliance with DFARS 252.234-7001 requirements.

RESULTS OF AUDIT

[For audits of the EVM system and report surveillance, this section summarizes the audit findings and gives an opinion as to whether the contractor's EVMS continues to provide valid and timely management information and continues to comply with the DoD EVMS guidelines. This section should give an opinion as to whether the cost reports evaluated in the examination contain accurate and reliable financial data. This section describes in detail any significant issues supporting the audit opinion and should summarize the conditions and recommendations found during the audit. The results related to the evaluation of the EVMS guidelines should be reported consistent with the guidance in 10-400. Significant findings related to the cost reports should be presented in exhibit format and should include explanatory notes in the structured note format, consistent with the guidance at 10-210.6. Refer to 10-1204.5 for additional information.]

Our examination was limited to the aspects of the contractor's EVM system identified above. Accordingly, we express no opinion on the contractor's EVM system as a whole.

[Conclude the Results of Audit section of the report narrative with the following additional remarks, as appropriate.]

We discussed the results of our examination with *[Name and Title of contractor representative]* in an exit conference held on *[date]*. *[If there are deficiencies, summarize the contractor's reaction here.] [If the evaluation requires a Statement of Condition(s) and Recommendation(s) be furnished to the contractor, include the following statement].* We provided a draft copy of the *[Results of audit and Statement of condition(s) and Recommendation(s)]* to the contractor's representative at the exit conference. *[When the contractor provides a formal, written response, it should be referenced within the Results of audit section and included as an appendix to the report. Put any rebuttals in the "Auditor Response" portion of the explanatory notes and include the following statement.]* The complete text of the contractor's response appears as Appendix *[x]*.

[Use the guidelines provided in 10-210.5e(2) to prepare any other additional remarks.]

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CONTRACTOR ORGANIZATION AND SYSTEMS

[This section should furnish pertinent information necessary for the reader to understand the area reviewed. This information should be classified under separate subheadings for the organization and individual system(s). Refer to 10-1204.6 and 10-210.7 for additional information and examples.]

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DCAA PERSONNEL

Primary contacts regarding this audit: _____ Telephone No.
 , Auditor
 , Supervisory Auditor

Other contacts regarding this audit report:
 , Branch Manager
 , Financial Liaison Advisor

 , Financial Liaison Advisor

E-mail Address

General information on audit matters is available at <http://www.dcaa.mil/>.

RELEVANT DATES

[Use this section in demand assignments. The section should include, at a minimum, the dates of ACO and PCO requests and the dates of any extensions. The format should facilitate computation of elapsed days (see 10-211 and Fig. 10-2-3).]

AUDIT REPORT AUTHORIZED BY:

[Title]
DCAA

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AUDIT REPORT DISTRIBUTION AND RESTRICTIONS

DISTRIBUTION

[All recipients of the audit report will be identified in this section of the report, include e-mail addresses. See 10-412 and 10-212 for additional information. In addition, see 11-209.1 for circumstances when a copy of the report should be sent to Headquarters, ATTN: PPD.]

E-mail Address

ATTN:

,

,
(Copy furnished thru ACO)

ATTN:

Telephone

,

RESTRICTIONS

1. Information contained in this audit report may be proprietary. It is not practical to identify during the conduct of the audit those elements of the data, which are proprietary. Make proprietary determinations in the event of an external request for access. Consider the restrictions of 18 U.S.C. 1905 before releasing this information to the public.
2. Under the provisions of Title 32, Code of Federal Regulations, Part 290.7(b), DCAA will refer any Freedom of Information Act request for audit reports received to the cognizant contracting agency for determination as to releasability and a direct response to the requestor.

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Audit Report No. -

3. Do not use the information contained in this audit report for purposes other than action on the subject of this audit without first discussing its applicability with the auditor.

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APPENDIXES

[Use as appropriate. Refer to 10-409c for additional information.]

[NOTE: For Real Time Reporting (Flash Audit Reports) refer to 10-413.]

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[Contractor Name]
[City, ST]

Proforma Workpaper EVM System and Report Surveillance
RISK ASSESSMENT/PRELIMINARY REVIEW

Summary of Risk Assessment/Preliminary Audit Steps

1. Audit Report Paragraph on Internal Controls/Control Risk:

Document your understanding of internal controls on w/p B-2 (preliminary audit step 7 from w/p B-1). Based on the audit work documented on w/p B-2, prepare the audit report paragraph describing how the contractor's systems of internal controls and the auditor's assessment of control risk affect the scope of audit (CAM 10-210.3 and 10-1204.3).

2. Materiality and Sensitivity:

Document below significant materiality and sensitivity factors (such as contract type, dollar value, coordination with the customer, extent of prime contractor surveillance of subcontractors, selection of contracts for testing, etc.). Where the identified risk factor will affect the submission being audited, document in Section 6 below the impact on the scope of audit for the EVM guidelines or reports being audited. (This summarizes completion of preliminary audit steps 4, 8, and 9 from w/p B-1.)

3. Inherent Risk Assessment:

Document below significant inherent risk factors (such as prior audit findings, prior acceptance of the EVMS, prior government contract experience, type of ownership of company, financial condition, accounting changes, CAS compliance, etc.). Where the identified risk factor will affect the submission being audited, document in Section 6 below the impact on the scope of audit for the EVM guidelines or reports being audited. (This summarizes completion of preliminary audit steps 2, 3, and 6 from w/p B-1.)

4. Fraud Risk Assessment:

Document below any identified fraud risk indicators and your response/actions to those identified risk indicators (either individually or in combination). If no risk indicators are identified, document this below. (This documents completion of preliminary audit step 11 from w/p B-1.)

B (1/3)

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|-----------------|--|
| Auditor: | |
| Date: | |

Enclosure 3

[Contractor Name]
[City, ST]

Proforma Workpaper EVM System and Report Surveillance
RISK ASSESSMENT/PRELIMINARY REVIEW

5. Results of Other Preliminary Audit Steps:

Identify other areas of risk disclosed resulting from the other preliminary risk assessment procedures (e.g., review of program plan risk assessment, assessment of the need for technical assistance, preliminary coordination with the contractor, etc.). (This summarizes completion of preliminary audit steps 1, 5, and 10 from w/p B-1.)

6. Results of Risk Assessment/Preliminary Audit Steps & Scope of Audit

Based on completing steps 1-5 above, document the scope of audit to be performed. For risk factors identified, reference where the risk factor is documented (i.e., steps 1-5, above) and describe the impact on the audit scope. (This summarizes completion of preliminary audit step 12 from w/p B-1)

a. System Surveillance

Describe the nature and extent of testing of the EVM system to be performed in the audit based on the risk assessment. Identify the EVM guidelines to be tested and the scope of audit for each guideline.

| <u>EVM Guideline</u> | <u>Scope of Audit</u> |
|--|------------------------------|
| Accounting Guideline 16 | |
| Accounting Guideline 17 | |
| Accounting Guideline 18 | |
| Accounting Guideline 19 | |
| Accounting Guideline 20 | |
| Accounting Guideline 21 | |
| Organization Guideline 4 | |
| Planning, Scheduling, and Budgeting Guideline 8 | |
| Planning, Scheduling, and Budgeting Guideline 9 | |
| Planning, Scheduling, and Budgeting Guideline 13 | |
| Analysis and Management Reports Guideline 22 | |
| Analysis and Management Reports Guideline 24 | |
| Analysis and Management Reports Guideline 27 | |
| Revisions and Data Maintenance Guideline 30 | |

b. Report Surveillance

B (2/3)

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|-----------------|--|
| Auditor: | |
| Date: | |

Enclosure 3

[Contractor Name]
[City, ST]

Proforma Workpaper EVM System and Report Surveillance
RISK ASSESSMENT/PRELIMINARY REVIEW

Identify the contracts and specific reports selected for evaluation and describe the scope of audit to be performed.

| Contract No. | Type(s) of Reports Required | Report Period | Scope of Audit |
|--------------|-----------------------------|---------------|----------------|
| | | | |
| | | | |
| | | | |

c. Additional Audit Areas Based On Coordination With Customer

Identify any additional audit procedures to be performed based on customer concerns or needs.

REVIEWER’S APPROVAL AND DATE:

(Reviewer’s Approval)

OTHER REVIEWER AND DATE:

(If Applicable)

B (3/3)

| | |
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| Auditor: | |
| Date: | |

Enclosure 3

[Contractor Name]
[City, ST]

Proforma Workpaper EVM System and Report Surveillance
REVIEW OF RELEVANT INTERNAL CONTROL DATA

1. Internal Control Audit Planning Summaries

For each system where an internal control audit has been performed, document in the table below the assessed level of substantive testing for the “contract reporting” audit area from Section IV of the most current Internal Control Audit Planning Summaries (ICAPS)).

| | Level of Substantive Testing | | | Lead W/P Reference(s) |
|-------------------------------|------------------------------|------------------|------------|--------------------------|
| | <u>Minimum</u> | <u>Increased</u> | <u>N/A</u> | |
| 1. Control Environment | | | | |
| 2. General IT System | | | | |
| 3. Budget and Planning System | | | | |
| 4. Purchasing System | | | | |
| 5. Material System | | | | |
| 6. Compensation System | | | | |
| 7. Labor System | | | | |
| 8. Indirect and ODC System | | | | |
| 9. Billing System | | | | |
| 10. Estimating System | | | | |

2. System Deficiencies Impacting The Scope of Audit

For each system where increased testing for “contract reporting” is documented in Section IV of the ICAPS, document the specific system deficiencies and their potential impact on this audit. For example, document the impact of a system deficiency on the nature and extent of testing required of the related EVM guideline; and the impact on the nature and extent of testing of report data necessary to determine the impact of the internal control deficiency on specific contracts, as required by CAM 5-110d, 10-408.2f, and 11-209.2e. If applicable internal controls covering certain areas under the audit have not been reviewed and tested for operational effectiveness, control risk must be assessed at the maximum, and an increase in substantive testing for those areas should be planned accordingly.

B-2 (1/1)

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|-----------------|--|
| Auditor: | |
| Date: | |

Enclosure 4

[Contractor Name]
[City, ST]

Proforma Workpaper EVM System and Report Surveillance
REVIEW OF RELEVANT INTERNAL CONTROL DATA

1. Review of Internal Controls and Assessment of Control Risk

a. Refer to the Internal Control Questionnaire (ICQ) or other permanent file documents to gain an understanding of the relevant contractor systems. Document below completion of this step by providing specific reference to (or hyperlink) information reviewed. If completion of an ICQ is not required (CAM 5-111.1a) and the significant and relevant internal controls, if any, are not documented in the ICQ or permanent file, you must gain an understanding of these internal controls and document it briefly below. This documentation should include a reference to (or documentation of) the contractor's policies and procedures, if any, for (1) estimating, (2) identifying and segregating unallowable costs and directly associated costs, and (3) excluding such costs from contract cost reports submitted to the government. If applicable internal controls have not been reviewed and sufficiently tested for operational effectiveness, control risk must be assessed at the maximum (CAM 5-102a and 5-111).

| <input type="checkbox"/> Maximum Control Risk | <input type="checkbox"/> Below Maximum Control Risk |
|--|---|
| <i>Control risk is assessed at maximum because (i) it is more efficient to perform substantive testing than perform tests of internal controls or (ii) the internal controls are ineffective or nonexistent.</i> | <i>(Control risk can only be assessed below maximum if significant internal controls have been reviewed and sufficiently tested for operational effectiveness. If control risk is assessed below maximum, document/reference below the audit assignment where the tests of controls were performed that supports the assessment.)</i> |

b. Is the contractor's submission supported by data from computer-based systems on which you will significantly rely to reach your conclusion?

Yes ☐

No ☐

If yes, document or reference below one or more of the following: (1) where the reliability of the data was sufficiently established in other DCAA audits (e.g., floor checks or incurred cost audits) or by other non-DCAA auditors (CAM 4-1000), (2) the audit procedures being performed in this audit to evaluate the contract cost reports that will also support reliance on the evidential matter, and/or (3) the tests that will be performed in this audit that will be specifically designed to test the reliability of the computer based data. When sufficient work is not performed to determine reliability (i.e., reduce audit risk to an acceptable level), qualify the audit in accordance with CAM 10-210.4 and 10-1204.4.

B-2 (1/2)

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|-----------------|--|
| Auditor: | |
| Date: | |

Enclosure 5

[Contractor Name]
[City, ST]

Proforma Workpaper EVM System and Report Surveillance
REVIEW OF RELEVANT INTERNAL CONTROL DATA

B-2 (2/2)

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| Auditor: | |
| Date: | |

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|---|-------------------------|--------------------------|
| Activity Code 17760 | | EVM, Report Surveillance |
| Version 1.0, dated September 2003 | | |
| B-1 | Planning Considerations | |
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| Purpose | | |
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| <p>This audit program is intended for use in performing the annual earned value management (EVM) surveillance audit in those years where only report surveillance is required. If system surveillance is also required, the audit should be set up and performed under activity code 17750, EVM System and Report Surveillance. This audit program may also be used, modified as appropriate, to perform requested audits of individual contract cost reports submitted by EVM-covered contractors.</p> | | |
| <p>This program is intended to provide a logical sequence to the audit effort and to reflect a mutual understanding between the auditor and the supervisor as to the scope required to meet auditing standards and DCAA objectives for the current assignment. The audit steps in the program are intended as general guidance and should be modified as considered necessary to fit the current audit. Those steps not required should be marked "not applicable" (N/A), lined through, or deleted, as appropriate for your FAO. Portions of the audit which are covered in other assignments (e.g., audits of billing system, budgeting system, progress payments, MMAS, estimating system) should be referenced at the appropriate place in this program.</p> | | |
| <p>The primary objective of EVMS guidelines is to ensure that contractors use effective internal cost and schedule control systems that provide contractor and government managers with timely and auditable data to effectively monitor their programs, meet requirements, and control contract performance. In accordance with DoD policy, compliance with EVMS guidelines shall be required on significant contracts, subcontracts, or agreements within all acquisition programs unless waived by DoD during the acquisition process. For this purpose, significant contracts/agreements are defined as research, development, test, and evaluation (RDT&E) contracts/agreements with a value of \$73 million or more, and procurement or operations and maintenance (O&M) contracts/agreements with a value of \$315 million or more (in fiscal year 2000 constant dollars).</p> | | |
| <p>When required by the contract, the cost and schedule control system used by the contractor in planning and controlling the performance of the contract must meet the guidelines specified in the American National Standards Institute (ANSI)/Electronic Industries Alliance (EIA) EVMS standard (ANSI/EIA-748-1998) (reproduced in Section 2 of the Earned Value Management Implementation Guide (DCAAP 7641.47)). Although Cost Performance Reports (CPRs) are usually required by contracts that are subject to full compliance with EVMS guidelines, DoD reporting requirements, such as the CPRs, Cost/Schedule Status Reports (C/SSRs), Contract Funds Status Reports (CFSRs), and Contractor Cost Data Reports (CCDRs), are specified separately in DD</p> | | |

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| Form 1423, Contract Data Requirements List, contained in the contract. |
| EVMS surveillance begins with the award of the contract, continues through initial compliance and acceptance, and extends throughout the period of contract performance. In accordance with DoD policies and procedures, EVMS surveillance of the contractor's system after acceptance, and review of data emanating from that system, is to be accomplished by qualified individuals from the Contract Management Office (CMO) and DCAA. The objectives of EVMS surveillance are: |
| <ul style="list-style-type: none">• To ensure that the contractor's management control system continues to: (1) provide valid and timely management information; (2) comply with the DoD EVMS guidelines; (3) provide timely indications of actual or potential problems; and (4) provide baseline integrity. |
| <ul style="list-style-type: none">• To ensure that the contractor's required external cost and schedule reports contain: (1) information that is derived from the same data base as that used by contractor management; (2) explicit and comprehensive variance analysis including proposed corrective action in regard to cost, schedule, technical, and other problem areas; and (3) information that depicts actual conditions. |
| DCMA is the executive agent for implementation of EVM on DoD contracts. DCMA normally appoints a member of the CMO as the surveillance monitor. The CMO monitor is assigned the overall responsibility for coordinating and accomplishing the EVMS surveillance. The surveillance monitor is assisted by personnel from the functional divisions of the CMO and DCAA in performing the activity required by the surveillance plan. Therefore, close coordination between DCMA, CMO, and DCAA is required in the preparation of the surveillance plan to ensure effective EVMS surveillance and to avoid duplication of oversight. The purpose of this audit program is to facilitate DCAA's participation in this surveillance activity. |
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| Scope |
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| The scope of our surveillance audits will depend on the contractor's financial condition and how much reliance can be placed on the accounting system, internal controls, cost representations, and billing procedures. If the results of prior audits and the preliminary audit steps indicate low audit risk, audit scope should be reduced accordingly. This decision must reflect a mutual understanding between the auditor and supervisor as to the scope required to meet auditing standards and DCAA objectives for the current assignment. This program does not replace individual auditor judgment and may be supplemented to satisfy the needs of a particular assignment. |
| DCAA's surveillance responsibilities include (1) auditing the contractor's accounting system policies and procedures for compliance with EVMS guidelines and contract provisions (system surveillance); (2) performing periodic audits of selective financial data contained in various reports submitted by the contractor to determine whether they accurately reflect the contractor's books and records (report surveillance); and (3) performing periodic evaluations of related financial areas, including budgeting, direct and |

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| indirect costs, variance analysis, and forecasting. |
| References (Should be reviewed prior to starting the audit) |
| 8. CAM 11-200 Audit of Contractor Compliance with Earned Value Management System (EVMS) Guidelines. |
| 9. CAM 11-300 Audit of Contractor Compliance with DoD Program Management Systems Reporting Requirements. |
| 10. DCAAP 7641.47 EVMS Implementation Guide. |
| 11. DFARS 234.005-70 Earned Value Management System |
| 12. DFARS 234.005-71 Solicitation Provision and Contract Clause. |
| 13. DFARS 252.234-7000 Notice of Earned Value Management System. |
| 14. DFARS 252.234-7001 Earned Value Management System. |

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| B-1 | Preliminary Steps | WP Reference |
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| Version 2.0, dated September 2003 | | |
| 4. | For the annual report surveillance audit, obtain and review the risk assessment performed during preparation of the program plan to identify: | |
| f. | the initial assessment of the level of system surveillance required; | |
| g. | any ACO concerns; | |
| h. | high risk or high visibility contracts to include in the sample of reports generated from the EVMS; | |
| i. | the universe of contracts containing reporting requirements; and | |
| j. | the initial assessment of the number of contracts to test based on a 3 year cycling of contracts. | |
| Note: If the risk assessment performed during the preparation of the program plan determined that system surveillance was required, the audit should be set up and performed under activity code 17750, EVMS System and Report Surveillance. | | |
| 5. | Determine whether the contractor's EVMS has been accepted. | |
| 6. | Review the following documents/items: | |
| a. | The contractor's System Description Document. | |

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| b. The EVMS Evaluation Guide that was completed during the acceptance process. | |
| c. The surveillance plan prepared by the surveillance monitor and any revisions made since the last review. | |
| d. A list of all performance measurement reports and related reports submitted in response to the data requirements list (DD Form 1423) contained in covered contracts. | |
| e. Contractor policies and procedures for preparing CPRs, C/SSRs, and CFSRs. | |
| NOTE: If these documents/items are not available in the permanent file they can be obtained from the CMO surveillance monitor. | |
| <u>7.</u> For the annual report surveillance audit, contact the DCMA designated surveillance monitor and discuss DCMA's surveillance plan: | Formatted: Bullets and Numbering |
| <u>e.</u> Identify those elements of the plan related to DCAA's area of responsibility. | Formatted: Bullets and Numbering |
| <u>f.</u> Determine the reports planned for review during the current surveillance period. | Formatted: Bullets and Numbering |
| <u>g.</u> Determine if the government contract administration and program office officials are aware of any cost or schedule problems which affect the contractor's estimate at completion (EAC). Determine and document what these officials have done to verify the accuracy of the EAC. If appropriate, obtain copies of any reports prepared (see CAM D-301). | Formatted: Bullets and Numbering |
| <u>h.</u> Discuss the planned scope of audit and determine if there are additional audit steps required to satisfy the customer's needs or concerns. | Formatted: Bullets and Numbering |
| <u>8.</u> For requested audits, contact the requester to identify any specific areas of risk or concern. | Formatted: Bullets and Numbering |
| <u>9.</u> Document the need for technical assistance. Coordinate with the DCMA surveillance monitor and request any required technical assistance. | Formatted: Bullets and Numbering |
| <u>10.</u> Review the permanent files and audit leads to obtain background information, identify potential EVMS deficiencies, and identify high risk contracts to help establish the scope of audit. | Formatted: Bullets and Numbering |
| <u>11.</u> Understanding and Evaluating the Contractor's Internal Control Structure | Formatted: Bullets and Numbering |
| a. Review relevant Internal Control Audit Planning Summaries (ICAPS) (or ICQ for nonmajor contractor where ICAPS have not been completed) to obtain and document an understanding of the | |

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| estimating system and any other applicable internal control systems the contractor may have (e.g., labor, MMAS, etc.). Identify any deficiencies that would impact the audit and document their potential impact on the contractor's EVM system. | |
| b. If the contractor is classified as non-major (where ICAPS have not been completed), and if the evidential matter to be obtained during the audit is highly dependent on computerized information systems, document on working paper B-2 the audit work performed that supports reliance on the computer-based evidential matter. Specifically, document or reference one or more of the following in working paper B-2: | |
| (1) the audit assignment(s) where the reliability of the data was sufficiently established in other DCAA audits, | |
| (2) the procedures/tests that will be performed in this audit to evaluate the incurred costs that will also support reliance on the evidential matter, and/or | |
| (3) the tests that will be performed in this audit that will be specifically designed to test the reliability of the computer-based data. | |
| When sufficient work is not performed to determine reliability (i.e., reduce audit risk to an acceptable level), qualify the audit report in accordance with CAM 10-210.4 and 10-1204.4. | |
| <u>12.</u> Determine the extent that EVMS guidelines flow down to subcontractors. | |
| <u>d.</u> Determine the extent of prime contractor surveillance. | |
| <u>e.</u> Determine whether the contractor has tasked its subcontractors to correct deficiencies noted in its surveillance reviews. | |
| <u>f.</u> In those cases where insufficient prime contractor surveillance is indicated, request an assist audit. | |
| <u>13.</u> For the annual report surveillance audit, select the sample of contracts to test. The sample of contracts should reflect: | |
| a. A three-year cycling of contracts containing reporting requirements, with at least one contract tested per year, | |
| b. Plus high-risk or sensitive contracts, including contracts where problems were identified in prior year testing. | |
| <u>14.</u> Arrange and conduct an entrance conference with the contractor's personnel responsible for the EVMS and preparing the selected reports. | |
| <u>15.</u> In planning and performing the examination, review the fraud risk indicators specific to the audit. The principal sources for the | |

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| <p>applicable fraud risk indicators are:</p> <ul style="list-style-type: none"> • Handbook on Fraud Indicators for Contract Auditors, Section II (IGDH 7600.3, APO March 31, 1993) located at www.dodig.osd.mil/PUBS/index.html, and • CAM Figure 4-7-3. <p>Document in working paper B any identified fraud risk indicators and your response/actions to the identified risks (either individually or in combination). This should be done at the planning stage of the audit, as well as during the audit if risk indicators are disclosed. If no risk indicators are identified, document this in working paper B.</p> | |
| <p>16. Summarize the results of the risk assessment and preliminary audit steps and clearly identify the planned scope of audit.</p> | |

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| C-1 | Report Surveillance - Evaluation of Reports | WP Reference |
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| | Version 2.0, dated September 2003 | |
| | 4. Review the selected reports and verify the mathematical accuracy. | |
| | 5. Review the selected reports for compliance with contractual requirements, such as reporting due dates, format, and content. | |
| | 6. Obtain and review the contractor's reconciliation of the reports to the contractor's cost ledgers. Selectively trace the reported actual cost data to the contractor's job cost ledgers. | |

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| D-1 | Report Surveillance - Evaluation of Reconciliations | WP Reference |
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| | Version 2.0, dated September 2003 | |
| | 5. Reconcile the CPR or C/SSR to the CFSR using the guidance in "EVMS-DCAA Reconciliation of EVMS Reports" (Other Audit Guidance)." | |
| | 6. Reconcile the CPR or C/SSR to reports prepared by the contractor for other purposes such as contractor cost data reports (CCDR), quarterly limitation on payment statements (QLOP), progress payment requests, and public vouchers. | |
| | 7. Request the contractor to explain any differences between the CPR or C/SSR, the CFSR, the cost ledgers, and the other reports. Differences that cannot be explained are indicators of significant internal control deficiencies in the cost accounting system and/or the performance | |

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| measurement system. | |
| 8. Immediately advise the contractor and the surveillance monitor of the system deficiencies and report the condition using the guidance in CAM 5-105d. | |

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| E-1 | Report Surveillance - Evaluation of Estimated Cost at Completion (EAC) | WP Reference |
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| Version 2.0, dated September 2003 | | |
| 6. | Determine whether the EAC used by the contractor was a "bottoms-up" EAC or was formula driven. Refer to the contractor's system description document to determine the required frequency of "bottoms-up" EACs. | |
| 7. | Confirm that data utilized in the EAC was prepared and approved by the responsible individual as defined in the system description document. Normally, someone such as the Cost Account Manager prepares the data. | |
| 8. | Verify that reasons for revisions to the EAC are fully documented and based on verifiable data. | |
| 9. | Determine if the EAC appears reasonable when compared to projections using trend analysis techniques. Note: DCMA frequently evaluates reported EACs using similar trend analysis techniques. Do not duplicate analyses available from the CMO or Program Office. | |
| a. | Graphically plot the cumulative to date Budgeted Cost of Work Scheduled (BCWS), Budgeted Cost of Work Performed (BCWP), and Actual Cost of Work Performed (ACWP), on a monthly basis. Compare to identify unusual fluctuations (positive and negative) and trace to the cost account level to identify the underlying reasons (See "EVMS-Trend Analysis of EAC Using Performance Indexes" (Other Audit Guidance)). | |
| b. | Project the EAC using Cost Performance Indices (CPIs) and Schedule Performance Indices (SPIs) as explained in "EVMS-Trend Analysis of EAC Using Performance Indexes" (Other Audit Guidance). | |
| c. | Significant differences between the EACs projected using the CPI and SPI and the contractor's "bottoms-up" ETC/EAC may indicate serious problems in the contractor's estimates and/or system and must be thoroughly investigated. | |

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| d. Discuss these differences with the contractor, the surveillance monitor, and the program office, and request an explanation for the difference. | |
| e. If the difference is not explained to the satisfaction of the auditor, request a technical evaluation on the items in question. | |
| 10. Evaluate the reasonableness of the contractor's "bottoms-up" ETC/EAC using the guidance in CAM 9-300. | |
| a. Verify that the contractor has been consistent in its ETC/EAC preparation. | |
| b. Verify that the contractor has used appropriate rates and factors. | |
| c. Review the quantitative and qualitative aspects of the EAC for reasonableness utilizing government technical assistance if considered necessary. | |

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| F-1 | Report Surveillance - Variance Analysis | WP Reference |
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| Version 2.0, dated September 2003 | | |
| To ensure timely and responsible actions are taken by the contractor to identify causes and minimize the impact on contract performance: | | |
| 6. Review schedule and cost variances disclosed in the CPRs or C/SSRs and contractor comments on significant problem areas, reasons for those variances, their impact on the program, and corrective action taken or to be taken. | | |
| 7. If appropriate, coordinate with the surveillance monitor, government program manager, technical specialists, etc., to assess impact of schedule slippage and problems in technical performance. | | |
| 8. On a sampling basis, select areas of significant cost variances and trace to the required action level. | | |
| 9. Determine if narrative descriptions provided by the contractor are valid and adequate. Discuss causes and proposed remedies with the contractor to assess responsiveness of proposed actions. | | |
| 10. Determine if the impact of any existing variances are reflected in the estimate to complete the contract. | | |

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| A-1 | Concluding Steps | WP Reference | |
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| | Version 2.0, dated September 2003 | | |
| | <u>9.</u> Discuss audit findings with supervisor and hold an exit conference (follow the guidance in CAM 4-304.4). | | Formatted: Bullets and Numbering |
| | <u>10.</u> Discuss the findings with the ACO and the surveillance monitor to ensure all pertinent information has been considered. | | Formatted: Bullets and Numbering |
| | <u>11.</u> Complete indexing and reference working papers. | | Formatted: Bullets and Numbering |
| | <u>12.</u> Draft Report (CAM 11-209.2 and 10-1200). | | Formatted: Bullets and Numbering |
| | a. The report should fully describe any significant unresolved deficiencies together with recommendations for their correction. | | |
| | b. When an assist audit and/or a technical evaluation is necessary, and is not obtained, the Qualification paragraph should be used to qualify the results of audit for the non-receipt of such reports (CAM 10-1204.4). | | |
| | <u>13.</u> If the auditor has encountered information that constitutes evidence or raises suspicion that fraud or other illegal acts have occurred, refer such suspicion by completing a DCAA Form 2000 (see CAM 4-702.4 and 5). | | Formatted: Bullets and Numbering |
| | <u>14.</u> Supervisory Review. | | Formatted: Bullets and Numbering |
| | <u>15.</u> Complete administrative working papers and update permanent files (ICAPS, MAARs, CAS, etc.). | | Formatted: Bullets and Numbering |
| | <u>16.</u> Closing actions should be performed in accordance with FAO procedures. These procedures may require either auditors or administrative personnel to perform various closing steps. Completion of these closing actions should be documented (e.g., by initials and date on the CD or working paper folder, etc.) and should include: | | Formatted: Bullets and Numbering |
| | <u>i.</u> Once an audit report is signed, the electronic document should immediately be modified to indicate who signed it, and it should be password protected. The electronic file should then be renamed according to the convention “01 DCAA Report [RORG_ASSIGNMENT NO.] – Final.doc” and changed to a read-only file. Only this file should be stored, transmitted, or otherwise used for official purposes. | | Formatted: Bullets and Numbering |
| | <u>j.</u> Once the report is signed, the signature page of the audit report must be scanned in accordance with Agency standard scanning instructions. For audit packages, the scanned signature page file should be named the same as the audit report (see above) with “-sig” added (i.e., 01 DCAA Report 01101-2002X10100389-Final-sig.tif). There is no requirement to make the file a part of the | | Formatted: Bullets and Numbering |

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| APPS generated executable file and it may be included separately on the CD containing the APPS generated executable file | | |
| <u>k.</u> Ensure an electronic copy of the final draft audit report containing the supervisory auditor's initials and date on the top page, cross-referenced to the working papers, is included in the working paper package. The final draft report should include all substantive changes made to the original draft, with cross-referencing updated as necessary. It should differ from the final report only due to minor administrative changes (spelling, format, etc.) made during final processing. | | Formatted: Bullets and Numbering |
| <u>l.</u> Include an electronic version of the acknowledgement letter in the audit working paper package. | | Formatted: Bullets and Numbering |
| <u>m.</u> Ensure all working paper files are "read only" and, if necessary, compressed for final storage. Generally, current Agency software should be used to automatically modify all electronic files for storage. | | Formatted: Bullets and Numbering |
| <u>n.</u> Two complete sets of electronic working papers must be prepared. The "original" set should be stored in the working paper package. The "archive" set is to be stored separately from the working paper package on a single session CD-ROM. If there will be a short-term need to access the working papers, a third, or "working" set should be stored so as to be available for reference, generally on the LAN. This set should be deleted when no longer needed. | | Formatted: Bullets and Numbering |
| <u>o.</u> Verify that electronic files stored on removable media are not corrupted and can be unarchived. | | Formatted: Bullets and Numbering |
| <u>p.</u> Securely enclose the "original" set of electronic files in the working paper package. | | Formatted: Bullets and Numbering |

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| Version No. 1.0 | EVM Report Surveillance Audit Report (17760) | September 2003 |
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|  | DEFENSE CONTRACT AUDIT AGENCY |  |
| | AUDIT REPORT NO. – | |
| | | |

[date]

PREPARED FOR:

ATTN:

,

PREPARED BY: DCAA

,

Telephone No.
FAX No.
E-mail Address

SUBJECT: Report on Audit of [*Earned Value Management Report Surveillance*] or
[*(Cost Performance Report, Cost/Schedule Status Report, or Contract
Fund Status Report) dated (date)*]

REFERENCES: *If applicable, include appropriate references, such as contract number.
Relevant Dates: (See Page 7)*

CONTRACTOR:

,

REPORT RELEASE RESTRICTIONS: See Page 8

CONTENTS: Subject of Audit

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Executive Summary
Scope of Audit
Results of Audit
Contractor Organization and Systems
DCAA Personnel and Report Authorization
Audit Report Distribution and Restrictions
Appendixes

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SUBJECT OF AUDIT

[For reports on annual EVM report surveillance, use the following subject of audit, modified as appropriate.]

As part of our continuing surveillance of 's (), we examined selected cost reports generated by [contractor name or short name]'s Earned Value Management System (EVMS). The purpose of the examination was to test whether the contractor's management control system continues to provide valid and timely management information and continues to comply with the requirements of DFARS 252.234-7001; and to test the accuracy and reliability of the financial data contained in the contract cost reports prepared from the contractor's EVMS.

[Contractor name] is responsible for maintaining an adequate EVMS and utilizing that system in the preparation of contract cost reports submitted to the Government. Our responsibility is to express an opinion on the accuracy and reliability of the financial data contained in the contract cost reports generated from the contractor's EVMS based on our examination.

[For reports on requested audits of individual cost reports, use the following subject of audit, modified as appropriate.]

In response to your [date] request, we examined the financial data contained in [contractor's name, or short name] [Cost Performance Report (CPR), Cost/Schedule Status Report (C/SSR), or Contract Fund Status Report (CFSR)] as of [as of date] dated [date], under [contract number.] The purpose of the examination is to determine the accuracy and reliability of the financial data contained in the [CPR, C/SSR, or CFSR]

[Contractor name] is responsible for preparing accurate [CPRs, C/SSRs, or CFSRs]. Our responsibility is to express an opinion on the financial data contained in the [CPR, C/SSR, or CFSR] based on our examination.

EXECUTIVE SUMMARY

[This section gives a brief overview of the audit findings. It briefly describes the audit opinion, recommendations, and the significant issues supporting the opinion. Refer to 10-1204.2, 10-210.2 and 10-304.2 for examples.]

SCOPE OF AUDIT

Except for the qualifications discussed below, [omit if the report is not rendering a qualified opinion and there is no "Qualifications" section within the "Scope" paragraph], we conducted our examination in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the examination to obtain

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reasonable assurance about whether the data and records are free of material misstatement. An examination includes:

- evaluating the contractor's internal controls, assessing control risk, and determining the extent of audit testing needed based on the control risk assessment;
- examining, on a test basis, evidence supporting financial and accounting data related to the earned value management system;
- assessing the earned value management system practices and compliance of those practices with applicable requirements;
- evaluating the overall data and records presentation; and
- determining the need for technical specialist assistance *[and quantifying the results of a government technical evaluation]*.

We evaluated financial and accounting data related to EVM system using the applicable requirements contained in:

- Federal Acquisition Regulation (FAR), and
- Defense FAR Supplement (DFARS),
- DoDI 5000.2, and
- *Industry or Technical Guides. [Identify any applicable guides actually used]*

During our examination, we tested the financial data contained in the following contract cost reports generated by the contractor's system *[omit for reports on requested audits of individual cost reports]*:

- [Contract No.], [type of cost report] dated [date];
- [Contract No.], [type of cost report] dated [date];
- [Contract No.], [type of cost report] dated [date], and
- [Contract No.], [type of cost report] dated [date]

[Summarize the contractor's internal control systems for the audit area being reviewed using the guidelines provided in CAM 10-210.3f]

We believe that our examination provides a reasonable basis for our opinion. The scope of our examination reflects our assessment of control risk and includes audit tests designed to provide a reasonable basis for our opinion.

QUALIFICATIONS:

[Any factors that restrict or limit the scope of the audit should be clearly described. Identify any circumstances encountered which have a significant adverse effect on the audit or results. (See 10-1204.4 and 10-210.4).]

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Our examination does not provide a legal determination on 's compliance with DFARS 252.234-7001 requirements. *[Omit for requested audits of individual cost reports.]*

RESULTS OF AUDIT

[For audits of EVM report surveillance, this section summarizes the audit findings and gives an opinion as to whether the cost reports evaluated in the examination contain accurate and reliable financial data. This section also describes in detail any significant issues supporting the audit opinion. Significant findings related to the cost reports should be presented in exhibit format and should include explanatory notes in the structured note format, consistent with the guidance at 10-210.6. For requested audits of individual cost reports, this section should also give an opinion as to whether the cost reports evaluated in the examination contain accurate and reliable financial data. Significant findings related to the cost reports should be presented in exhibit format and should include explanatory notes in the structured note format, consistent with the guidance at 10-210.6. Refer to 10-1204.5 for additional information.]

Our examination was limited to testing the accuracy and reliability of data generated by the contractor's EVM system. Accordingly, we express no opinion on the contractor's EVM system as a whole.

[Conclude the Results of Audit section of the report narrative with the following additional remarks, as appropriate.]

We discussed the results of our examination with *[Name and Title of contractor representative]* in an exit conference held on *[date]*. *[If there are deficiencies, summarize the contractor's reaction here.] [If the evaluation requires a Statement of Condition(s) and Recommendation(s) be furnished to the contractor, include the following statement].* We provided a draft copy of the *[Results of audit and Statement of condition(s) and Recommendation(s)]* to the contractor's representative at the exit conference. *[When the contractor provides a formal, written response, it should be referenced within the Results of audit section and included as an appendix to the report. Put any rebuttals in the "Auditor Response" portion of the explanatory notes and include the following statement.]* The complete text of the contractor's response appears as Appendix *[x]*.

[Use the guidelines provided in 10-210.5e(2) to prepare any other additional remarks.]

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CONTRACTOR ORGANIZATION AND SYSTEMS

[This section should furnish pertinent information necessary for the reader to understand the area reviewed. This information should be classified under separate subheadings for the organization and individual system(s). Refer to 10-1204.6 and 10-210.7 for additional information and examples.]

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Audit Report No. -

DCAA PERSONNEL

Primary contacts regarding this audit: _____ Telephone No.
 , Auditor
 , Supervisory Auditor

Other contacts regarding this audit report:
 , Branch Manager
 , Financial Liaison Advisor

 , Financial Liaison Advisor

E-mail Address

General information on audit matters is available at <http://www.dcaa.mil/>.

RELEVANT DATES

[Use this section in demand assignments. The section should include, at a minimum, the dates of ACO and PCO requests and the dates of any extensions. The format should facilitate computation of elapsed days (see 10-211 and Fig. 10-2-3).]

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[Title]
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AUDIT REPORT DISTRIBUTION AND RESTRICTIONS

DISTRIBUTION

[All recipients of the audit report will be identified in this section of the report, include e-mail addresses. See 10-412 and 10-212 for additional information. In addition, see 11-209.1 for circumstances when a copy of the report should be sent to Headquarters, ATTN: PPD.]

E-mail Address

ATTN:

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(Copy furnished thru ACO)

ATTN:

Telephone

,

RESTRICTIONS

4. Information contained in this audit report may be proprietary. It is not practical to identify during the conduct of the audit those elements of the data, which are proprietary. Make proprietary determinations in the event of an external request for access. Consider the restrictions of 18 U.S.C. 1905 before releasing this information to the public.
5. Under the provisions of Title 32, Code of Federal Regulations, Part 290.7(b), DCAA will refer any Freedom of Information Act request for audit reports received to the cognizant contracting agency for determination as to releasability and a direct response to the requestor.

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6. Do not use the information contained in this audit report for purposes other than action on the subject of this audit without first discussing its applicability with the auditor.

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APPENDIXES

[Use as appropriate.]

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Summary of Risk Assessment/Preliminary Audit Steps

1. Audit Report Paragraph on Internal Controls/Control Risk:

Document your understanding of internal controls on w/p B-2 (preliminary audit step 8 from w/p B-1). Based on the audit work documented on w/p B-2, prepare the audit report paragraph describing how the contractor's systems of internal controls and the auditor's assessment of control risk affect the scope of audit (CAM 10-210.3 and 10-1204.3).

2. Materiality and Sensitivity:

Document below significant materiality and sensitivity factors (such as contract type, dollar value, coordination with the customer, extent of prime contractor surveillance of subcontractors, selection of contracts for testing, etc.). Where the identified risk factor will affect the submission being audited, document in Section 6 below the impact on the scope of audit for the reports being audited. (This summarizes completion of preliminary audit steps 4, 5, 9, and 10 from w/p B-1.)

3. Inherent Risk Assessment:

Document below significant inherent risk factors (such as prior audit findings, prior acceptance of the EVMS, prior government contract experience, type of ownership of company, financial condition, accounting changes, CAS compliance, etc.). Where the identified risk factor will affect the submission being audited, document in Section 6 below the impact on the scope of audit for the reports being audited. (This summarizes completion of preliminary audit steps 2, 3, and 7 from w/p B-1.)

4. Fraud Risk Assessment:

Document below any identified fraud risk indicators and your response/actions to those identified risk indicators (either individually or in combination). If no risk indicators are identified, document this below. (This documents completion of preliminary audit step 12 from w/p B-1.)

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5. Results of Other Preliminary Audit Steps:

Identify other areas of risk disclosed resulting from the other preliminary risk assessment procedures (e.g., review of program plan risk assessment, assessment of the need for technical assistance, preliminary coordination with the contractor, etc.). (This summarizes completion of preliminary audit steps 1, 6, and 11 from w/p B-1.)

6. Results of Risk Assessment/Preliminary Audit Steps & Scope of Audit

Based on completing steps 1-5 above, document the scope of audit to be performed. For risk factors identified, reference where the risk factor is documented (i.e., steps 1-5, above) and describe the impact on the audit scope. (This summarizes completion of preliminary audit step 13 from w/p B-1)

d. Report Surveillance

Identify the contracts and specific reports selected for evaluation and describe the scope of audit to be performed.

| Contract No. | Type(s) of Reports Required | Report Period | Scope of Audit |
|--------------|-----------------------------|---------------|----------------|
| | | | |
| | | | |
| | | | |

e. Additional Audit Areas Based On Coordination With Customer

Identify any additional audit procedures to be performed based on customer concerns or needs.

REVIEWER'S APPROVAL AND DATE:

(Reviewer's Approval)

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OTHER REVIEWER AND DATE:

(If Applicable)

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1. Internal Control Audit Planning Summaries

For each system where an internal control audit has been performed, document in the table below the assessed level of substantive testing for the “contract reporting” audit area from section IV of the most current Internal Control Audit Planning Summary (ICAPS).

| | Level of Substantive Testing | | | Lead W/P Reference(s) |
|-------------------------------|------------------------------|------------------|------------|--------------------------|
| | <u>Minimum</u> | <u>Increased</u> | <u>N/A</u> | |
| 1. Control Environment | | | | |
| 2. General IT System | | | | |
| 3. Budget and Planning System | | | | |
| 4. Purchasing System | | | | |
| 5. Material System | | | | |
| 6. Compensation System | | | | |
| 7. Labor System | | | | |
| 8. Indirect and ODC System | | | | |
| 9. Billing System | | | | |
| 10. Estimating System | | | | |

2. System Deficiencies Impacting The Scope of Audit

For each system where increased testing for “contract reporting” is documented in Section IV of the ICAPS, document the specific system deficiencies and their potential impact on this audit. For example, document the impact on the nature and extent of testing of report data necessary to determine the impact of the internal control deficiency on specific contracts, as required by CAM 5-110d, 10-408.2f, and 11-209.2e. If applicable internal controls covering certain areas under the audit have not been reviewed and tested for operational effectiveness, control risk must be assessed at the maximum, and an increase in substantive testing for those areas should be planned accordingly.

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2. Review of Internal Controls and Assessment of Control Risk

c. Refer to the Internal Control Questionnaire (ICQ) or other permanent file documents to gain an understanding of the relevant contractor systems. Document below completion of this step by providing specific reference to (or hyperlink) information reviewed. If completion of an ICQ is not required (CAM 5-111.1a) and the significant and relevant internal controls, if any, are not documented in the ICQ or permanent file, you must gain an understanding of these internal controls and document it briefly below. This documentation should include a reference to (or documentation of) the contractor's policies and procedures, if any, for (1) estimating, (2) identifying and segregating unallowable costs and directly associated costs, and (3) excluding such costs from contract cost reports submitted to the government. If applicable internal controls have not been reviewed and sufficiently tested for operational effectiveness, control risk must be assessed at the maximum (CAM 5-102a and 5-111).

| <input type="checkbox"/> Maximum Control Risk | <input type="checkbox"/> Below Maximum Control Risk |
|--|---|
| <i>Control risk is assessed at maximum because (i) it is more efficient to perform substantive testing than perform tests of internal controls or (ii) the internal controls are ineffective or nonexistent.</i> | <i>(Control risk can only be assessed below maximum if significant internal controls have been reviewed and sufficiently tested for operational effectiveness. If control risk is assessed below maximum, document/reference below the audit assignment where the tests of controls were performed that supports the assessment.)</i> |

d. Is the contractor's submission supported by data from computer-based systems on which you will significantly rely to reach your conclusion?

Yes ☐

No ☐

If yes, document or reference below one or more of the following: (1) where the reliability of the data was sufficiently established in other DCAA audits (e.g., floor checks or incurred cost audits) or by other non-DCAA auditors (CAM 4-1000), (2) the audit procedures being performed in this audit to evaluate the contract cost reports that will also support reliance on the evidential matter, and/or (3) the tests that will be performed in this audit that will be specifically designed to test the reliability of the computer based data. When sufficient work is not performed to determine reliability (i.e., reduce audit risk to an acceptable level), qualify the audit in accordance with CAM 10-210.4 and 10-1204.4.

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| Auditor: | |
| Date: | |